

General Fund - Five-Year Financial Forecast

This section addresses the City's ability to meet its capital needs over the five-year planning period. The development of the City's Capital Improvements Program is a process of assessing needs and making choices in relation to a balanced budget and a reasonable forecast of future financial conditions in the City. A forecasting model gives policy makers the ability to test assumptions behind the projections for future reserve balances and future debt capacity.

The projects in the City's Capital Improvements Program are paid for either with grants, debt or on a "pay as you go" basis with a combination of operating and reserve funds. The bottom of the Summary Tables in Tab 2 shows the portions of the CIP that are proposed to be paid for with grants, debt and what portions are planned for "pay as you go".

SOURCES	FY2012	FY2013	FY2014	FY2015	FY2016	5 Year TOTAL
Grant/Other Funded	-	300,000	-	100,000	-	400,000
Total Debt Financed	15,545,000	7,485,000	4,403,500	540,000	1,590,000	29,563,500
Only if grant/revenue offset	1,229,000	1,241,399	1,804,000	1,954,000	1,954,000	8,182,399
Total "Pay as you go" Financed	200,000	95,000	219,000	75,000	(86,500)	502,500
Total Sources	16,974,000	9,121,399	6,426,500	2,669,000	3,457,500	38,648,399

The use of debt and reserve funds is subject to policies previously adopted by the City Council. The following sections will illustrate how this proposed CIP for the five-year period beginning in FY2011 meets those debt and reserve fund policies.

Section I: Debt

General obligation bonds have been issued throughout the City's history to provide funding for long-term capital improvements. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is not required by state law to submit to public referendum for authority to issue general obligation bonds. However, the City Council has established a policy, by resolution, which calls for public referendum on any single debt issuance that exceeds ten percent of annual general fund expenditures for that year. The most recent bond referendum was held in November 2004, for voter approval of the school bonds that were used for the construction of the Mary Ellen Henderson Middle School.

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Annual debt service requirements to maturity for the long-term obligations serviced by the General Fund are summarized as follows:

Fiscal Year Ending	Principal	Interest	Total
2011	\$ 3,642,435	\$ 1,431,998	\$ 5,074,433
2012	2,437,663	1,298,905	3,736,569
2013	2,958,916	1,171,221	4,130,137
2014	3,015,633	1,030,127	4,045,761
2015	2,150,633	910,388	3,061,021
2016	2,118,333	817,291	2,935,624
2017-2020	8,873,334	2,429,150	11,302,484
2021-2025	10,295,000	1,037,333	11,332,333
2026-2030	190,000	9,453	199,453
Total	\$ 35,681,948	\$ 10,135,866	\$ 45,817,814

During FY2008, FY2009 and FY2010, the City issued General Obligation bonds totaling \$20.1 million to fund various capital expenditures and intergovernmental shared expenditures related to the City's water system and sewer system. The bonds have various maturity dates, with the latest one being September 1, 2029. Because these bonds are to be repaid from revenues from the City's water and sewer utilities, the debt service on these bonds are not counted towards the policy-related ratios.

In addition, bonds have been issued by the City to refund outstanding general obligation bonds when market conditions enabled the City to achieve significant reductions in its debt service payments. The chart below shows all the general obligation bonds that are outstanding as of June 30, 2010:

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Bond Description	Principal Balance
Governmental Activities:	
\$9,000,000 General Improvement bonds issued June 1, 2000; variable amounts maturing annually with interest payable semi-annually; final payment due on December 15, 2020; interest at various rates. This bond was partially advanced refunded in March 2007.	\$ 415,000
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017.	790,000
\$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024.	23,450,000
\$1,023,000 General Obligation bonds issued January 21, 2005; interest at 3.32% principal amounts maturing annually in equal installments through April 1, 2011.	511,500
\$4,808,034 Refunding bonds issued January 21, 2005 to replace 1995 General Obligation bonds; interest at 2.90%; variable amounts maturing through April 1, 2011.	866,000
\$1,935,000 School Construction bonds, issued May 11, 2006 by VPSA; interest at various rates; variable amounts maturing through July 15, 2026.	1,635,000
\$6,260,000 Refunding bonds issued March 8, 2007 to partially advance refund 2000 General Obligation bonds; interest at 4.00%; variable amounts maturing through August 1, 2021.	6,095,000
\$2,000,000 General Obligation bonds issued March 28, 2008; interest at 3.66%; variable amounts maturing through February 1, 2023.	1,733,333
 \$428,800 General Obligation bonds issued March 20, 2008 through the Virginia Resources Authority (VRA); interest at 2.26%; variable principal amounts maturing annually through March 15, 2013.	 186,115
Total Governmental Activities	<u>35,681,948</u>
Business-type Activities:	
<u>Water</u>	
\$5,500,000 General Obligation bonds issued November 1, 2006 for Water Fund construction and improvement costs; interest rate at 3.89%; variable principal amounts maturing through March 1, 2021.	3,700,000
\$8,220,000 General Obligations bonds issued December 1, 2007 through the VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2027.	7,690,000
\$5,385,000 General Obligation bonds issued November 19, 2009 through the VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2029.	5,385,000
Total Water	<u>16,775,000</u>
<u>Sewer</u>	
\$3,275,000 Line of Credit issued on June 23, 2005 to the VRA; interest rate at 3%; variable principal amounts maturing annually through July 1, 2025.	2,859,769
\$4,100,000 Line of Credit issued on May 13, 2009 to the VRA; interest rate at 3.35%; variable principal amounts maturing semiannually through September 1, 2029.	3,044,925
Total Sewer	<u>5,904,694</u>
Total Business-type Activities	<u>22,679,694</u>
Total General Obligation Bonds Payable	<u>\$ 58,361,642</u>

Debt Policies

The City Council has adopted policies to restrain the use of debt within sustainable limits. A copy of the full text of the City's debt policies is provided at the end of this section. They can be summarized as follows:

- General Fund supported debt shall not exceed five percent of the net assessed valuation of taxable property in the City.
- Annual debt service expenditures for all General Fund supported debt shall not exceed twelve percent of total General Fund and School Board Fund expenditures.
- The term of any bond issue will not exceed the useful life of the capital project, facility or equipment for which the borrowing is intended.

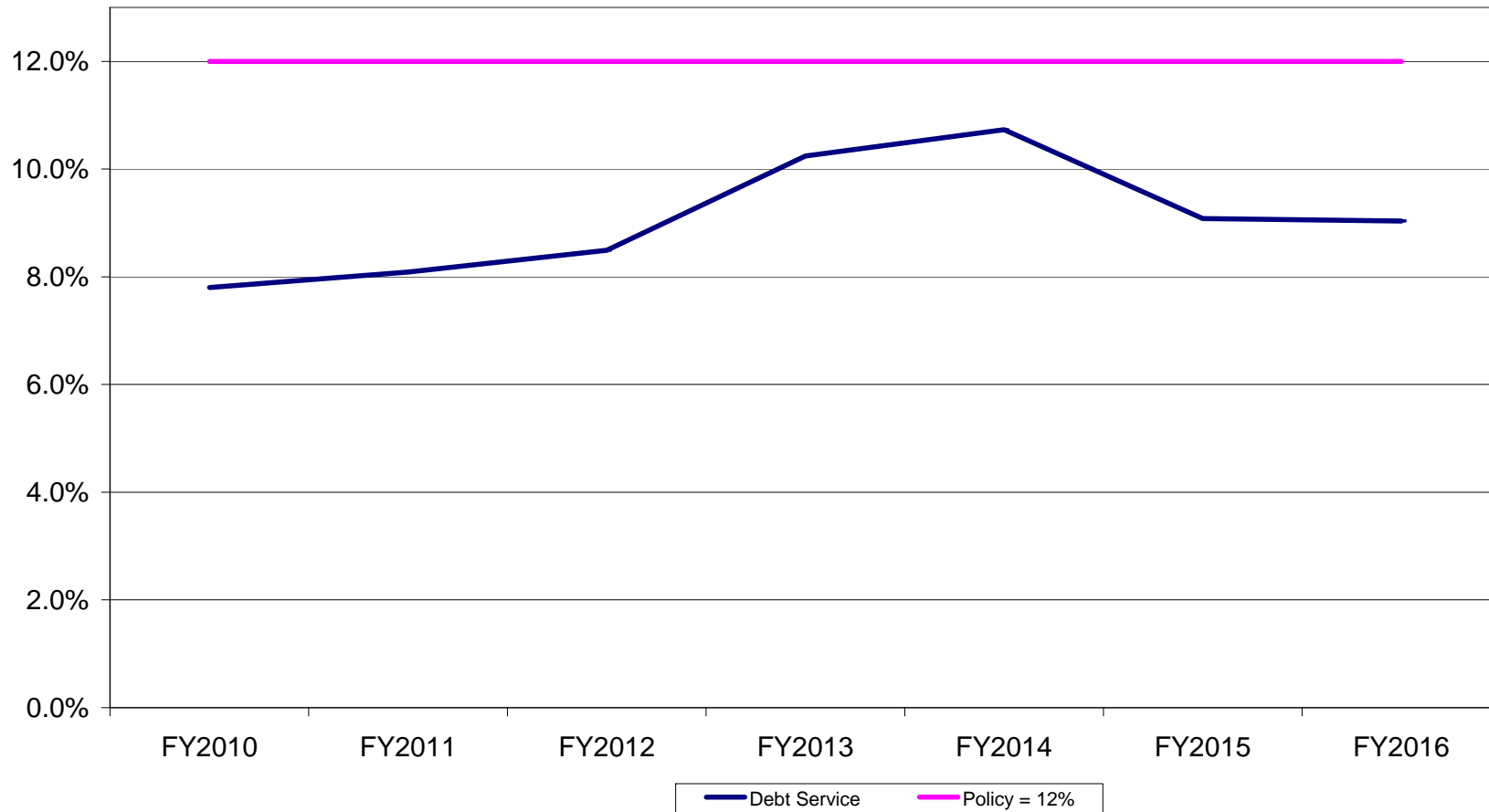
Ratio of Annual Debt Service Payments to Total General Fund Expenditures

The second element of the debt limit policy bears closer attention as this ratio goes more directly to the question of how much debt the City can afford.

The chart below illustrates the relationship of debt service payments to total expenditures through FY2016. Expenditures projected are based on a balanced budget based on conservative revenue projections.

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**Debt Service as Percentage of Expenditures
FY2010 - FY2016
Policy maximum of 12%**



Here, the upper limit represents the “twelve percent of total General Fund expenditures” policy limit, and the lower line represents projected annual debt service over a six year period. The increase in annual debt service relating to the \$6 million bond sale for Municipal Parking

Garage approved in FY2012 accounts for the increase in FY2012 as well as the facility expansion/renovations for general government, schools and library. The 1995 general obligation bonds will be fully paid off in 2011, resulting in a significant reduction in debt service cost in 2012. Overall the FY2012-2016 CIP debt funded project is reduced to \$26.5M from \$46M in the FY2011-2015 adopted CIP.

It is worth noting that the discussion of “debt capacity” in terms relating strictly to policy guidance does not address the separate issue of affordability within current tax rates.

In summary, the ratio of annual debt service to total General Fund expenditures is a constraint that bears close attention. This ratio is used by bonding agencies to assess fiscal health, and must be used by the City to assess the affordability of specific projects and the five-year CIP as a whole. The projects in this FY2012-2016 CIP stay within the City’s policy constraints based on the assumptions used in this forecasting tool, with the exception; however, by FY2014 the City will be committed to expenditures at just below the policy maximum guidelines.

Section II: Reserve Balance Policies (Pay-As-You-Go)

A minor portion of the City’s CIP projects are funded on a “Pay as you go” basis; the focus for the next five years is in executing previously approved projects. Under this financing option, capital projects that are funded by current year revenues or, if available, the use of reserve balances.

Reserve balances accrue over time when at the end of a given fiscal year, the City’s actual expenditures were less than the amount budgeted, or when actual revenues exceed projected revenues.

In January 2009 the City Council re-adopted the long standing Reserve Balance Policy (attached) that sets limits on the minimum size of the reserve balance. This policy also states that reserve funds shall only be used for one-time expenditures, as opposed to recurring expenses. The resolution states:

- The unreserved, undesignated General Fund Balance goal shall be twelve percent but not less than eight percent of the actual General Fund revenues for the then current fiscal year.
- Unreserved, undesignated General Fund Balance in excess of twelve percent of the then current fiscal year may be used to fund one-time capital expenditures.

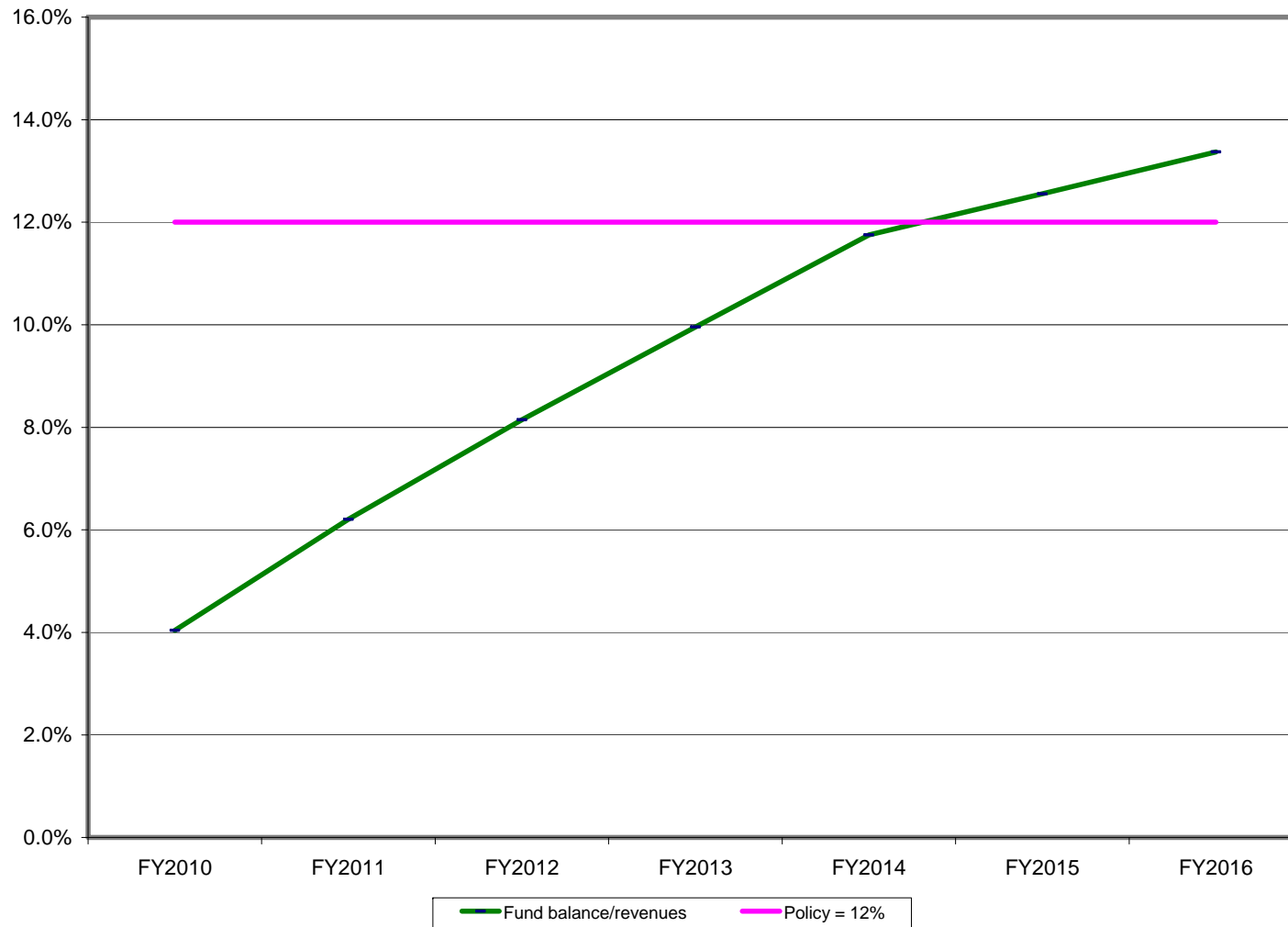
Forecasting future reserve balances requires assumptions about future operating revenues and expenditures. Key assumptions included in the model used in the charts that follow are:

- dedicated resources for fund balance restoration and CIP projects; and
- the City will have a balanced operating budget every year.

The chart below provides a look at the impact of the proposed CIP on the City's reserve balances.

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**Projected Reserve Balance Ratios
(Reserves/Revenues)
FY2010 - FY2016**



Here, the line at 12% represents the “twelve percent of actual General Fund revenues” policy limit. The other line represents the projected fund balances based on the spending levels contained in this CIP. Although the FY2009 the fund balance was below the 8% minimum, the proposed CIP plan is forecast to bring the fund balance up to the 12% goal by FY2014. The data used to develop this chart is contained in the table entitled Five Year Budget Projection and is provided in Tab 3.

Attachments:

Debt Policy Resolution

Reserve Fund Policy Resolution

I. PLANNING AND BUDGETING – ALL FUNDS

A. Governing Legislation

The adoption and implementation of the City of Falls Church's (the City) budget shall be governed by Chapter 6 of the City Charter and Chapter 10 of the City Code. This policy shall not override any of the provisions of the Charter and the Code, but rather, shall provide supplemental guidance on the adoption and implementation of the City's budget.

B. General

The City of Falls Church will adopt an annual General Fund budget in which the budgeted revenues and expenditures are equal (a balanced budget). The budget shall clearly delineate the sources of funding for each year's expenditures. Any one-time revenues or use of unreserved and undesignated fund balance will be used for one-time, non-recurring expenses such as capital assets, pay-as-you-go projects in the Capital Improvement Program (CIP), equipment, special studies, debt reduction, and reserve contributions. Designated or reserved fund balances may only be used for the purpose so stated.

Each year's budget may include a General Fund Contingent appropriation ("Council Reserve") to cover unforeseen expense items or new projects initiated after a fiscal year has begun. Unexpended amounts in this reserve at fiscal year end may be re-appropriated by Council for use in the subsequent fiscal year. Funding may be allocated from this contingent appropriation only by resolution of City Council.

The City will adopt annual Utility Funds budgets in which the budgeted revenues from fees and charges, investment earnings, and operating grants will be sufficient to meet operating expenses and debt service. Availability fees, including availability fees accumulated from previous years, will only be used to offset the costs of providing additional capacity, including debt service on any debt incurred to finance such projects. Any one-time revenues or use of unrestricted net assets will be used for one-time, non-recurring expenses such as capital, equipment, special studies, debt reduction, and reserve contributions. Restricted net assets may only be used for the purpose so stated.

The City will prepare and update annually a five-year Capital Improvement Program (CIP) to be approved by City Council. At the same time, the City Council will adopt an annual budget for the Capital Fund fund. The CIP will be developed with an analysis of the City's infrastructure and other capital needs, and the financial impact of the debt service required to meet the recommended financing plan.

The City will adopt an annual budget for all other funds except for trust funds, including the School Board and the Economic Development Authority.

The City Council will adopt all budgets by Ordinance.

C. Budget Amendments

Amendments to any budget that require an increase in revenue and/or expenditure requires an Ordinance to be passed by the City Council.

Transfers of funding between departments, as defined by the City's organization structure, requires a resolution by the City Council. For this purpose, the Water Fund and Sewer Fund will be considered separate departments.

Transfers within departments require an approval by the City Manager and by the Chief Financial Officer.

D. Funding of Post-Retirement Benefits

The City will use an actuarially-accepted method of funding its pension system to maintain a fully-funded position. The City's contribution to employee retirement costs will be adjusted annually as necessary to maintain full funding. If the City reaches its actuarially-required contribution (defined as City and employee contributions, if any, that when expressed as a percent of annual covered payroll are sufficient to accumulate assets to pay benefits when due), the City may reduce its contribution provided that the amount reduced from the annual actuarial requirement will only be used for one-time non-recurring expenses in order to provide the ability to increase contributions as may be required by future market conditions.

The City will use an actuarially-accepted method of funding its other post-employment benefits to maintain a fully-funded position. The extent of the City's post-employment benefits and its contribution to them will be adjusted annually as necessary to maintain full funding. If the City reaches its actuarially-required contribution (defined as City and employee contributions, if any, that when expressed as a percent of annual covered payroll are sufficient to accumulate assets to pay benefits when due), the City may reduce its contribution provided that the amount reduced from the annual actuarial requirement will only be used for one-time non-recurring expenses in order to provide the ability to increase contributions as may be required by future market conditions.

E. Transfers from Utility Funds

Transfers from the Utility Funds to the General Funds may be done for reimbursement of administrative expenses based on a reasonable method of calculation. The General Fund may also charge the Utility Funds for management fees. The calculation of such fees will be adopted by the City Council by resolution or through the adoption of the annual budget.

II. DEBT MANAGEMENT

A. General Fund

The City of Falls Church will adhere to the following policies whenever the City issues new bonds:

1. Total General Fund supported debt shall not exceed 5% of the net assessed valuation of taxable property in the City.
2. Annual debt service expenditures for all General Fund supported debt shall not exceed twelve percent (12%) of total General Fund expenditures.
3. The term of any debt issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
4. The city shall comply with all U. S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
5. The City shall comply with all requirements of Title 15.2 Code of Virginia and all other legal requirements regarding the issuance of bonds and certificates of the City or its debt issuing authorities.
6. At least 25% of total debt will be repaid within five years and at least 50% of total debt within ten years.
7. Debt shall be defined as bonds, capital leases, lines of credit, certificates of participation or any other instruments that constitute evidence of indebtedness on the part of the City.

The Council shall put to referendum certain general obligation bonds:

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1. Where the aggregate amount of the bond exceeds ten percent of the General Fund budget for the fiscal year in which the bonds are anticipated to be issued.
2. The referendum requirement does not apply to bonds issued for water, sewer, fire, police and medical services projects.

In addition, the Commonwealth of Virginia limits the City's debt capacity to not more than 10% of the net assessed valuation of taxable property in the City.

B. UTILITY FUNDS

The City may issue bonds to fund enterprise activities, such as water and sewer utilities, or for capital projects which will generate a revenue stream.

1. The bonds will be issued only if revenue sources are identified that are sufficient to fund the debt service requirements.
2. Costs of issuance, debt service reserve funds, and capitalized interest may be included in the capital project costs and thus are fully eligible for reimbursement from bond proceeds.
3. Bonds may be issued either as revenue bonds or as City general obligation bonds. In either case, the debt service coverage for the fund supporting the debt shall be at least 105%. Debt service coverage is calculated by dividing net operating income by total debt service.

III. FUND BALANCE AND NET ASSETS

A. General Fund

The City of Falls Church adopts the following policy for its General Fund fund balance:

1. The goal for undesignated fund balance shall be 12%, but not less than 8%, of the actual General Fund revenues for the then current Fiscal Year, and these funds shall be appropriated by the City Council.
2. In the event that the undesignated fund balance is used to provide for temporary funding of unforeseen emergency needs, the City shall restore the undesignated fund balance to 8% of the actual General Fund revenues for the then current fiscal year within two fiscal years following the fiscal year within which the event occurred. To the extent additional funds are necessary to restore the Undesignated General Fund Balance to twelve percent (12%) of the actual General Fund revenues for the then current year, such funds shall be accumulated in no more than three approximately equal contributions each fiscal year; this shall provide for full recovery of the targeted fund balance amount within five years following the fiscal year in which the event occurred.
3. Reservation of fund balance represents that portion of fund balance that is legally restricted for a future use or not available for appropriation. Reservations of fund balance shall comply with Governmental Accounting Standards Board (GASB) criteria.
4. Designation of fund balance represents plans by management. Such designations should be supported by definitive plans approved either by the City Council or the City Manager.

B. Utility Funds

It is the City's goal to have positive unrestricted net assets for its Utility Funds in its Statement of Net Assets that reflect economic well-being.

1. Unrestricted net assets shall be greater than 10% of total operating revenues at fiscal year-end, net of any donated assets recognized, to provide reserves for operations and future capital improvements.
2. There will be a restriction of net assets for investment in capital assets, net of related debt, as required by Generally Accepted Accounting Principles.
3. Designation of unrestricted net assets represents plans by management. Such designations should be supported by definitive plans approved either by the City Council or the City Manager

IV. FISCAL POLICIES – ADOPTION

1. The City's fiscal policies shall be adopted by resolution of the City Council.
2. The fiscal policies shall remain in effect until such time as they are amended or repealed by subsequent Council action, and will be presented to City Council every two years within ninety days of a new Council taking office.

*Adopted by Council January 12, 2009
Resolution 2009-01*

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